

# **Legislative Fiscal Bureau**

## **Fiscal Note**

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HF 2081 - Small Business Growth Initiative (LSB 5321 HV)

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Fiscal Note Version - New

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### **Description**

House File 2081 allows taxpayers who elect to allocate income from S-corporations between Iowa and other states to deduct 100.0% of federal income taxes paid in determining the share of the S-corporation income that is subject to Iowa income tax. Currently, only 50.0% of federal income taxes paid may be deducted in determining the amount of S-corporation income that is subject to Iowa income tax. The Bill applies retroactively to January 1, 2002.

### **Background**

The Department of Revenue and Finance conducted a study of tax year 1998 returns to estimate the amount of deduction taken for federal taxes paid on S-corporation income. The analysis was based on a sample of returns claiming "Other Iowa Credits" on line 54 of the 1998 Iowa Individual Income Tax Long Form IA 1040. Based on the sample, \$8.6 million of S-corporation apportionment credits were estimated to have been claimed. To obtain an estimate of the impact of increasing the deduction for federal income taxes from 50.0% to 100.0%, the amount of the credit was reestimated for the 1,121 returns in the sample. With the change in the deduction, the reestimated credit amount increased to \$9.4 million.

### **Fiscal Impact**

House File 2081 will result in a decrease in General Fund revenues equal to \$0.9 million in FY 2003 and \$0.8 million in FY 2004.

### **Assumptions**

1. Tax year 1998 was a typical year relative to the number of taxpayers reporting income from S-corporations and electing to apportion income between Iowa and other states.
2. The share of other credits claimed accounted for by the S-corporation apportionment credit remains relatively constant from year-to-year at approximately 60.0%.
3. The distribution of S-corporation apportionment credits by amount of the claim and adjusted gross income bracket of the taxpayers remains relatively constant from year-to-year.

4. For tax year 2002, all of the deduction change impact will be realized on the tax return filed in FY 2003.
5. For tax year 2003, 12.5% of the impact will be realized in estimate payments made in FY 2003, 37.5% will be realized in estimate payments made in FY 2004, and 50.0% will be realized on final returns filed in FY 2004.

**Source**

Iowa Department of Revenue and Finance

\_\_\_\_\_/s/ Dennis C Prouty\_\_\_\_\_

January 25, 2002

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The fiscal note and correction impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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